ANNUAL REPORT

for the year
ending Dec. 31, 1988

Nova Scotia Dairy Commission

90-02265/

His Honour
The Honourable Lloyd R. Crouse, P.C.
Lieutenant-Governor of the Province of Nova Scotia
Government House
Halifax, Nova Scotia

Dear Sir:

I have the honour to transmit herewith the Annual Report of the Nova Scotia Dairy Commission for the year 1988.

I am, Your Honour,

Yours very truly,

George Archibald

George Archibald

The Honourable George Archibald
Minister of Agriculture and Marketing
P.O. Box 190
Halifax, Nova Scotia
B3J 2M4

Sir:

We have the honour of submitting herewith the Annual Report of the Nova Scotia Dairy Commission for the fiscal year ending December 31st, 1988 pursuant to the provisions of Section 187 of the Agriculture and Marketing Act.

Respectfully submitted,

G.A. Francis
Vice Chairman

R.L. Mason
Manager

Commission Members
G.A. Francis—Vice Chairman
G.W. Butt—Member
R.S. Johnstone—Member
J.M. Killawee—Member

Staff
R.L. Mason—Manager
P.M. Green—Accountant
E.L. Faulkner—Secretary
E.E. MacLean—Accounting Clerk

Introduction

The Nova Scotia Dairy Commission provides a regulatory and administrative service on behalf of the dairy industry in Nova Scotia. The Commission works closely with producers, processors, the Department of Agriculture and Marketing, and the Canadian Milk Supply Management Committee. Together they develop regulations and policies that meet the needs of the industry and are consistant with the objectives of ensuring that efficient producers receive a fair return for their product and consumers have a continuous supply of quality dairy products at reasonable prices.

Formed in June 1967, the Commission administers Part XVIII of the Agriculture and Marketing Act. Commissioners are appointed to five-year part-time terms by the Governor in Council. One person is a dairy farmer, one is a processor, and three persons are not actively associated with the dairy industry. A chairman and vice chairman are designated by the Governor in Council.

In September 1988 the agricultural industry in Nova Scotia mourned the passing of Mr. Walter Grant, a former Deputy Minister of Agriculture who had been Chairman of the Commission since June 1987. Mr. James MacConnell served as Vice Chairman until his term expired at the end of September. Mr. G.A. Francis was appointed a representative of the processors and Vice Chairman effective October 1, 1988. Mr. George W. Butt of Kentville was appointed a Commissioner in June to succeed Mr. Daniel Harlow whose term had also expired.

Mrs. Trudy Johnson retired at the end of July after 14 years of dedicated service, and Mrs. Beth MacLean has been appointed to fill the position of accounting clerk.

Summary of Main Activities

In 1988 producer and processor milk prices were increased. Changes to the bulk haulage rate structure were implemented; and the Commission participated in a major study of the National Market Sharing Quota Program, dealing in particular with the way quota is distributed among the provinces. A significant event was the establishment by the Nova Scotia Milk Producers Association of a Dairy Industry Study Committee to identify the major issues and concerns respecting policies that are the basis of the supply management system within the province.

The effectiveness of the fluid quota system was somewhat limited during the year due to the uncertainties caused by two court decisions. Administration of the Market Sharing Quota Program and the price equalization system were carried out with a minimum of difficulty.

The Commission was represented at the annual meetings of Dairy Farmers of Canada, Atlantic Dairy Council, and the International Association of Milk Control Agencies.

Classifications

Milk and cream are classified according to the end utilization by dairy processing plants. Dairy farmers are either milk or farm-separated cream producers; and milk producers are further classified as either fluid or industrial milk producers.

Milk and cream consumed in liquid form is referred to as fluid milk for payment purposes. Milk and cream consumed in products such as yogurt, ice cream, cottage cheese, cheddar cheese, skim milk powder, and butter is identified as industrial milk. Farm-separated cream is designated for making butter.

Fluid milk producers hold both fluid quota and Market Sharing Quota (MSQ). They receive payment for a portion of their fluid quota shipments at fluid price and the balance of their shipments at an industrial milk classification. Industrial milk producers and cream producers hold only MSQ, as all of their shipments are classified for industrial usage. Fluid and industrial milk producers must meet qualifying standards to receive a licence from the Commission to ship milk.

Table I
TOTAL MILK SHIPMENTS TO PROCESSORS IN LITRES

	Fluid Milk Producers	Industrial Milk Producers	Total	Licensed Farms
1988	174 749 666	2 576 505	177 326 171	589
1987	172 588 160	1 997 862	174 586 022	601
1986	175 015 215	464 149	175 479 364	603
1985	168 227 955	71 610	168 299 565	609
1984	171 813 782	305 455	172 119 237	615
1983	164 330 487	410 111	164 740 598	630
1982	170 674 231	441 310	171 115 541	645
1981	169 649 931	535 515	170 185 446	656
1980	167 355 149	1 172 251	168 527 400	675

Since 1984 the dairy industry in Nova Scotia has operated on a series of 4-, 4-, 5-week pay periods for a total of 52 weeks and 364 days in a year. To catch up the day or two lost each year, it is necessary to occasionally have a 53-week year, as experienced in 1988. Therefore it should be kept in mind that all statistics reported for 1988 represent one more week than in previous years.

Cream Production

Farm-separated cream production is declining due, in part, to lower returns compared to industrial and fluid milk, and to a shortage of MSQ. Five new producers began shipping cream during 1988 with a free allotment of quota.

Prices for farm-separated cream increased in February from $2.39 per pound for Special Grade to $2.43, and from $2.33 per pound for First Grade to $2.36. Three creameries operated by Scotsburn Co-op continued to receive cream and make butter. Although the butterfat portion of shipments by industrial milk producers is transshipped to the creameries, the cream statistics for 1988 include deliveries of farm-separated cream only. The 1987 data have been adjusted as well, to exclude cream from industrial milk producers originally included in the 1987 Annual Report.

Table II
SHIPMENTS TO NOVA SCOTIA PROCESSORS
BY CREAM PRODUCERS

Year	Butterfat (kg)	Residency of Producers as of August N.S.	N.B.	Total
1988	114 270	112	7	119
1987	177 400	131	9	140
1986	225 164	171	12	183
1985	219 247	181	14	195
1984	223 421	188	14	202
1983	224 934	202	15	217
1982	236 823	243	14	257

Milk Utilization

Consumption of fluid milk in Nova Scotia increased slightly in 1988, after consideration for the 53-week sales period. Trends toward lower fat consumption are evident in the declining sales of whole milk and increases in sales of partly skimmed and skim milk.

Sales of milk to Newfoundland decreased by 21.7 per cent as higher production by Newfoundland producers far outstripped a significant increase in per capita consumption. Sales to Newfoundland represented 4.2 per cent of the combined fluid sales of Nova Scotia producers in 1988 compared to 5.4 per cent in 1987.

Total fluid milk sales of 115 686 201 litres in 1988 compares with 114 681 346 litres in 1987. Fluid milk sales represented 66.2 per cent of the total milk shipments by fluid producers. The balance of milk was used in the manufacture of products such as yogurt, cottage cheese, ice cream and mixes, cheddar, gouda and feta cheese, skim milk powder, butter, whey powder, and condensed whey.

Table III
PRODUCT SALES WITHIN NOVA SCOTIA

	1988 (Litres)	1987 (Litres)	Increase/ Decrease (%)
Standard milk	39 065 520	40 437 406	— 3.4
Partly skimmed milk	54 224 746	51 420 746	+ 5.5
Skim milk	8 207 575	7 829 927	+ 4.8
Buttermilk	263 872	262 113	+ 0.7
Chocolate milk	4 704 477	4 613 625	+ 2.0
Blend cream	2 501 132	2 375 389	+ 5.3
Coffee cream	1 083 071	847 243	+27.8
Whipping cream	496 518	488 255	+ 1.7
Sour cream	303 311	268 660	+12.9
Egg nog	543 502	452 545	+20.1
Total	111 393 724	108 995 909	+ 2.2

Litre sales for 1987 have been adjusted slightly from the previous annual report to reflect an audit correction.

Milk Pricing

The Commission establishes prices for each type and container size for milk and cream sold by processors in Nova Scotia. To prevent destabilization in the market, the listed wholesale price is also the minimum price at which milk may be resold to the public.

With the assistance of a major accounting firm, a thorough analysis of all processor costs associated with the production and distribution of fluid milk is undertaken on an annual basis and monitored during the year. The allowable rate of return takes into consideration that this is a regulated industry.

Effective January 4 the Commission approved a two-cent per litre increase to processors, and on August 1 a further five-cent increase was authorized.

Table IV
COMMISSION WHOLESALE AND MINIMUM RETAIL PRICE FOR STANDARD MILK (3.25 PER CENT BUTTERFAT)

	Nova Scotia Mainland	Cape Breton Island	Effective Date
4-litre pouch pack	$4.56	$4.60	August 1, 1988
2-litre carton	2.30	2.32	
4-litre pouch pack	4.36	4.40	January 4, 1988
2-litre carton	2.20	2.22	
4-litre pouch pack	4.28	4.32	December 28, 1986
2-litre carton	2.16	2.18	
4-litre pouch pack	4.08	4.12	December 29, 1985
2-litre carton	2.06	2.08	
4-litre pouch pack	3.92	3.96	May 26, 1985
2-litre carton	1.98	2.00	
4-litre pouch pack	3.76	3.80	August 26, 1984
2-litre carton	1.90	1.92	

The Commission sets the producer price for milk utilized in Class I and Class II, while Farmers Cooperative Dairy Ltd. sets the price for milk utilized in Class III. Prices paid to producers for milk sold outside the province are determined by prevailing prices in those markets.

As a general guide, milk consumed in liquid form is Class I; milk utilized for cheddar cheese is Class III(a) and milk processed into skim milk powder and butter is Class III(b). Milk not utilized as Class I or III is processed into other dairy products and paid at the Class II price.

A producer cost-of-production formula maintained by the Farm Management Division of the Nova Scotia Department of Agriculture and Marketing showed costs dropping below the Class I price early in the year before rising above it toward the end of the year. Following these trends the Commission concluded the base price set in December 1986 should not be changed.

Table V
PRODUCER BASE PRICES PER HECTOLITRE OF MILK*

	Nova Scotia Mainland	Cape Breton Island	Effective Date
Class I	$57.70	$58.67	December 28, 1986
	55.41	56.38	December 29, 1985
	53.66	54.63	May 26, 1985
	51.41	52.38	August 26, 1984
Class II	41.61	41.61	February 15, 1988
	41.03	41.03	August 10, 1986
	40.23	40.23	August 25, 1985
	39.20	39.20	August 26, 1984
	38.38	38.38	April 16, 1984
	37.73	37.73	January 16, 1984
Class III(a)	40.42	40.42	February 1, 1988
(b)	38.62	38.62	
(a)	39.84	39.84	March 29, 1987
(b)	38.04	38.04	
(a)	38.84	38.84	August 1, 1986
(b)	37.34	37.34	
(a)	38.04	38.04	August 16, 1985
(b)	36.54	36.54	
(a)	37.01	37.01	August 1, 984
(b)	35.51	35.51	
(a)	36.19	36.19	April 1, 1984
(b)	34.69	34.69	
(a)	35.54	35.54	January 1, 1984
(b)	34.04	34.04	

* Basis 3.6 kilograms of butterfat per hectolitre

Changes to the Class II and III prices in Nova Scotia generally follow the federal target return level and support prices for butter and skim milk powder. The target return level was increased in February to $47.06 per hectolitre which included 14 cents per hectolitre to assist in financing the carrying charges associated with the marketing of butter. The support price for butter increased to $5.102 per kilogram, and the skim milk powder price increased to $3.013 per kilogram.

The target return price in future will be established according to a new pricing mechanism based on cost of production surveys and replaces a returns adjustment formula that had been in place since 1975. Although this mechanism is designed to adjust the price annually in August, an indexing method will be used to review the price midway through the year, and adjustments will be made in February if warranted.

Table VI
FEDERAL DAIRY PRODUCT SUPPORT PRICES

Skim Milk Powder	Butter	Target Return Level	Effective Date
$3.013/kg	$5.102/kg	$47.06/hl	February 1, 1988
2.978	5.035	46.30	August 1, 1986
2.922	4.929	45.68	August 16, 1985
2.85	4.784	44.65	August 1, 1984
2.79	4.71	43.83	April 1, 1984
2.74	4.60	43.18	January 1, 1984

Price Equalization

The system of paying fluid milk producers based on the provincial utilization of milk, rather than the utilization at the plant to which they shipped, began in 1985 and continued to operate smoothly in 1988. For each pay period the Commission obtains the pertinent information to make the provincial calculations and then acts as a clearing house for the plants who have either over- or underpaid for milk compared to their own utilization.

Although the system provides for fluid quotas to be determined according to provincial utilization without regard to individual plant requirements, there is resistance in some areas to allowing quota to transfer between producers shipping to different dairies. A court ruling stated there must be approval by the Quota Committee of the plant from which quota is to transfer. On this basis quota transferred during the year among producers to three of the four dairies in the province.

For a second year in a row it was agreed there should be no change to the total amount of issued fluid quota because of the relatively static sales situation. Due to uncertainty over the legal status of quotas it was decided there should be no recovery of quota from producers who failed to fill their quota during the quota building months.

Table VII
SUMMARY OF PRICE EQUALIZATION VALUES

Month	Payout % of Fluid Quota	Fluid Value Cape Breton Island & Yarmouth County*	Fluid Value Other Areas*	Non Fluid Blend Value*
January	82.82	$58.10	$57.25	$39.37
February	82.38	58.10	57.26	39.99
March	81.90	58.25	57.40	40.08
April	80.91	58.34	57.48	40.08
May	78.61	58.43	57.57	39.99
June	74.94	58.59	57.71	39.69
July	79.14	58.40	57.53	40.11
August	76.45	58.46	57.59	40.13
September	82.88	58.24	57.40	40.31
October	84.70	58.22	57.37	40.56
November	85.28	58.19	57.36	40.80
December	82.81	58.32	57.46	40.13

* Price per hectolitre of milk, 3.6 kilograms of butterfat.

Table VIII
AVERAGE RETURNS PER HECTOLITRE RECEIVED BY FLUID MILK PRODUCERS

	1988	1987	1986
January	$51.98	$51.34	$50.25
February	52.07	51.82	50.66
March	52.11	51.94	50.31
April	52.19	51.51	50.06
May	51.54	51.56	49.15
June	50.50	50.85	48.18
July	51.50	50.72	48.09
August	51.01	51.59	48.86
September	52.16	52.01	49.36
October	53.59	52.72	50.73
November	53.97	53.11	51.73
December	53.06	52.48	50.84

Table IX
ANNUAL RETURNS TO FLUID MILK PRODUCERS

Year	Annual Production (litres)	Total Payment	Average Value Per Hectolitre	Average Butterfat Test—Kg
1988	174 749 666	$91,043,062	$52.10	3.68
1987	172 588 160	89,393,163	51.80	3.69
1986	175 015 215	87,165,957	49.80	3.68
1985	168 227 955	81,493,963	48.44	3.71

Bulk Milk Hauling Rates

Some discussions were held during the year to consider a blend of all haulage costs into a single producer rate; however, the proposal was withdrawn when agreement could not be reached over provincial transferability of fluid quota. A consensus was reached to incorporate secondary costs of moving milk to the cheese plant in Truro, into the base rates from farms to the fluid processors. An exception was to be made in the case of milk moving from Yarmouth to Truro.

An analysis of all haulage costs was completed by year end. A new rate schedule was expected to be approved by the Commission early in the new year.

Table X
SCHEDULE OF BULK HAULAGE RATES—FARM TO FLUID PLANTS

Transporter	Maximum Rate per Hectolitre	Effective Date
Rudy Burghardt	$1.37	June 28, 1987
	1.33	April 27, 1986
Cook's Dairy Farm Ltd.	1.19	April 27, 1986
Farmers Co-op Dairy Ltd.	1.94	May 24, 1987
	1.89	April 27, 1986
Curtis Fisher	1.49	April 27, 1986
Scotsburn Co-op Services Ltd.	2.02	May 24, 1987
	1.93	April 27, 1986

Table XI

NATIONAL MARKET SHARING QUOTA ENTITLEMENT AND UTILIZATION
AUGUST 1987–JULY 1988
(Millions of Kilograms of Butterfat)

Province	Date of Entry	Authorized MSQ	%	Production	% Utilization
Nova Scotia	April 1, 1974	2.139	1.3	2.309	107.9
New Brunswick	April 1, 1974	2.234	1.3	2.301	103.0
Prince Edward Island	December 1, 1971	3.207	1.9	3.207	100.0
Québec	December 1, 1970	81.101	47.6	82.765	102.1
Ontario	December 1, 1970	53.030	31.1	54.257	102.3
Manitoba	July 1, 1972	6.613	3.9	6.980	105.5
Saskatchewan	July 1, 1972	4.402	2.6	4.571	103.8
Alberta	April 1, 1972	11.354	6.7	11.737	103.4
British Columbia	October 1, 1973	6.248	3.7	6.572	105.2
Total		170.328	100%	174.699	102.6

Market Sharing Quota Program

The supply management system in Canada for industrial milk is known as the Market Sharing Quota (MSQ) Program. All provinces except Newfoundland, which does not produce any milk in excess of fluid requirements, are signatories to the National Milk Marketing Plan.

The objective of the program is national self-sufficiency in industrial milk production on a butterfat basis. A committee of provincial representatives under the chairmanship of the Canadian Dairy Commission is responsible for policy development. The committee establishes a national quota in butterfat based on the estimated demand for dairy products in Canada, plus the volume required for a small export program, and the plan sets forth the relative provincial shares.

The federal government supports the program with import controls on dairy products, support prices for butter and skim milk powder, and direct subsidy payments to producers. The government also absorbs certain costs associated with the offer-to-purchase program for skim milk powder and butter.

Each province allocates its respective share of the national MSQ among producers according to its own policies. The Nova Scotia Dairy Commission administers the program on behalf of the milk and cream producers. Policies are developed in consultation with the Nova Scotia Milk Producers Association and the Cream and Industrial Milk Producers Association and with the assistance of a Producers Advisory Committee.

In Nova Scotia the combination of a slight decline in MSQ deliveries and a 1.5 per cent increase in quota due to higher sales of dairy products in Canada resulted in a drop in over-quota utilization from 110.2 per cent to 107.9 per cent. At the national level, utilization increased from 100.3 per cent to 102.6 per cent.

Under the National Milk Marketing Plan, milk and cream producers are responsible for the costs associated with the export of dairy products that are not required for domestic consumption. In meeting Canadian requirements for dairy products on a butterfat basis, there is a surplus of skim milk powder to be exported as well as over-quota production. The Canadian Milk Supply Management Committee determines the provincial levy responsibilities and allows the individual provinces to determine the levy rates. Levies are deducted from producer payments by the processors and are forwarded to the Canadian Dairy Commission by the Nova Scotia Dairy Commission on a monthly basis.

Table XII
NOVA SCOTIA MSQ PRODUCTION
(Kilograms of Butterfat)

Producers	1987–88	1986–87	Change	%
Fluid	2 090 378	2 096 011	- 5633	0.3
Industrial	98 311	45 575	+52736	86.4
Cream	120 626	181 003	- 60377	33.4
Total	2 309 315	2 322 589	- 13274	0.6

Levy rates established at the beginning of the 1987/88 dairy year were subsequently reduced due to higher than expected prices for dairy products on the world market. Lower in-quota and over-quota rates, combined with a lower MSQ utilization, resulted in a substantial decrease in levy payments by Nova Scotia producers from $5,260,560 in 1986/87 to $4,773,657 in the current year.

Deliveries of industrial milk and cream produced to meet Canadian requirements for butterfat are eligible for a monthly direct subsidy payment from the Canadian Dairy Commission at the rate of $1.675 per kilogram of butterfat. Any under-quota production in one province is prorated among the others by a year-end adjustment in levies and subsidy entitlement. Returns to Nova Scotia producers of $3,565,534, compared to $3,515,825 in the previous year, reflect the increase in annual MSQ entitlement.

Table XIII
SUMMARY OF LEVY AND SUBSIDY PAYMENTS 1987–88

Producers	In-Quota Levy	Over-Quota Levy	Total Levy	Subsidy Payments
Fluid	$2,466,346	$1,217,133	$3,683,479	$3,207,260
Industrial	69,565	10,277	79,842	181,424
Cream	—	10,336	10,336	176,850
Total	2,535,911	1,237,746	3,773,657	3,565,534

A national study team formed by the Canadian Milk Supply Management Committee in September 1987 presented a report of its findings at the end of the 1987/88 dairy year. Concerns over the allocation of quota among provinces and the need for policies to encourage more new product development were addressed. Because the team was unable to

reach a consensus, their report formed a basis for further discussion by the Canadian Milk Supply Management Committee, but by year-end no changes had been implemented.

The authorized MSQ for Nova Scotia to start the 1988/89 dairy year remained unchanged at 2.139 million kilograms of butterfat. Improving prices for dairy products on the world market enabled the Canadian Milk Supply Management Committee to agree to a retroactive adjustment of $0.63 per hectolitre on all in quota milk shipments the previous year and a reduction in levy rates to the following schedule.

Table XIV
NOVA SCOTIA LEVY RATES FOR 1988–89

Fluid Producers	Production up to 100% of MSQ	$ 3.65 hl
	Production over 100% of MSQ	26.00 hl
Industrial Producers	Production up to 100% of MSQ	3.00 hl
	Production over 100% of MSQ	26.00 hl
Cream Producers	Production over 100% of MSQ	4.00 kg

National quota levels and levy rates are reviewed at the January meetings of the Canadian Milk Supply Management Committee and adjustments may be made if they are deemed necessary.